

THIS AMENDED AND RESTATED ADDENDUM TO SUMMARY OF MATERIAL TERMS OF FINANCING DOCUMENTS, dated as of ~~July~~August 17, 8, 2002 (the “Addendum”), is a supplement to the Summary of Material Terms of Financing Documents (“Summary of Material Terms”) which was attached to a memorandum dated February 21, 2002 from Department of Water Resources (“DWR”) to the California Public Utilities Commission (“CPUC”) as Attachment A. This Addendum amends and restates the Addendum dated July 17, 2002 previously submitted to the CPUC. After approval by the CPUC on February 21, 2002, a Rate Agreement was executed by the CPUC and DWR on March 8, 2002 (the “2002 Rate Agreement”). ¶

The amendments to the Addendum reflected herein address issues identified during discussions with the rating agencies reviewing the Bonds, including increasing the authorized principal amount of Bonds and making other provisions for an increase to the “Minimum Operating Account Expense Available Balance” in the Operating Account to be established under the Indenture. The Department has determined that these changes will enable the Bonds to receive more favorable credit ratings than would otherwise be available and result in substantially lower overall debt service costs associated with the Bonds (taking into account the present value of costs and benefits of the changes contemplated hereby) and the Department will implement such changes only if the Department determines that such substantially lower overall debt service costs are achieved.¶

It is anticipated that DWR will enter into a Trust Indenture among DWR, the Treasurer of the State of California as Trustee, and U.S. Bank, N.A., as Co-

Trustee (the “Bond Indenture”) in connection with its issuance of Power Supply Revenue Bonds, Series 2002. All undefined terms in this Addendum shall be defined by reference to the 2002 Rate Agreement and the Bond Indenture.¶

1. Maximum Amount of Bonds Authorized.¶

The maximum aggregate principal amount of Bonds which may be issued may be increased from \$11,100,000,000 but may not result in net proceeds of more than \$11,950,000,000. Such increase is intended to permit the Department to increase the Minimum Operating Expense Available Balance and the initial deposit to the Operating Account as described below. As used in the paragraph “net proceeds” means the aggregate principal amount of Bonds issued, plus original issue premium, less original issue discount.

2. ~~1.~~ Bond Indenture.

The Bond Indenture will contain language that reflects the understandings contained in this Addendum. DWR and CPUC will also enter a letter agreement that obligates each party to act in accordance with the applicable provisions of the Bond Indenture relating to the subject matter of this Addendum.

3. ~~2.~~ Disposition of Operating Reserve Account.

DWR shall separately notify CPUC in writing each time the Operating Reserve Account Requirement is reduced pursuant to the Bond Indenture. Whenever such reduction in the Operating Reserve Account Requirement occurs, any excess amounts in the Operating Reserve Account (“Excess Amounts”) will be used at such time to satisfy any deficiencies existing at such time in the payment of Items 1-8

under “Power Charge Revenues” in Section III of the Summary of Material Terms (including repayment in full of the General Fund of the State). Unless otherwise agreed by both the CPUC and DWR, each acting in their own discretion, any Excess Amounts remaining after application to the uses described in the preceding sentence, shall be used, at the direction of CPUC, after consultation with DWR, to (i) adjust DWR Charges or (ii) with the agreement of DWR, reduce debt outstanding under the proposed Bond Indenture, in all instances, upon consideration of the interests of the retail customers of the Electrical Corporations, DWR and, if applicable, ESP retail customers.

4. ~~3.~~ Disposition of Priority Contract Account.

At the point at which DWR no longer holds any Priority Long Term Power Contracts, any balance in the Priority Contract Account shall be disposed of in the same fashion as Excess Amounts in Section ~~2~~3 of this Addendum.

5. ~~4.~~ Disposition of Operating Account.¶

DWR shall separately notify CPUC in writing when the Minimum Operating Expense Available Balance has been reduced pursuant to the Bond Indenture as a result of the Department no longer purchasing the Residual Net Short. Whenever such reduction in the Minimum Operating Expense Available Balance occurs, any excess amounts in the Operating Account shall be utilized in the same manner as Excess Amounts as set forth in Section 3 of this Addendum.

If and when the DWR is no longer ~~selling power, all~~ responsible for the payment of costs under any Power Supply Contracts, all excess amounts in the Operating Account shall be utilized in the same fashion as Excess Amounts as set

forth in Section ~~2~~3 of this Addendum to Summary of Material Terms, provided that, the Operating Account may remain open to pay those administrative expenses that would otherwise have to be paid out of Bond Charge Revenues as described in Section III of the Summary of Material Terms. If the Operating Account is held open for the purpose of paying these administrative expenses after DWR is no longer selling power, all amounts not needed to pay such administrative expenses shall be treated as Excess Amounts.

6. ~~5.~~ Definition of Revenues.

The definition of Revenues under the proposed Bond Indenture shall include any moneys actually received by DWR which have been recovered as compensation or damages from providers of Power or other commodities or services acquired by DWR pursuant to the Enabling Measures. Notwithstanding the foregoing, the definition of Revenues may exclude moneys received if and to the extent DWR's entitlement thereto is not final and is subject to appeal, other review or refund. Nothing in the Bond Indenture will obligate DWR to recover and actually receive money as such compensation or damages from such providers.

7. ~~6.~~ Application of Power Charge Revenues.

If, at any time, DWR has received “Power Charge Revenues” which are available to pay Items 10 and 11 under Section III of the Summary of Material Terms, any such moneys will be used instead to satisfy any remaining outstanding amounts due under the Interim Loan and to the General Fund of the State until the Interim Loan and the General Fund of the State have been repaid in full. Any usage of these moneys for Items 10 and 11 after repayment of the Interim Loan and the General Fund of the State in full, shall require the consent of the CPUC. However, subordinated payments under Qualified Swaps and Reimbursement Obligations may be paid without regard to the preceding two sentences.

8. ~~7.~~ Assumptions in Proposed Bond Indenture.

Wherever the Bond Indenture requires DWR to consult with the Commission with respect to assumptions made by DWR, DWR shall involve the Commission in the development of these assumptions, by conferring regularly, in a manner consistent with DWR’s obligations under Article 4 of the 2002 Rate Agreement.

9. ~~8.~~ Replenishment of Operating Reserve Account and Debt Service Reserve Account.

These accounts will be replenished in the event of a deficiency beginning no later than the seventh month following the determination of a deficiency, in approximately equal or greater amounts so that the deficiency will be cured no later than the twelfth month following a determination of the deficiency. During the existence of any deficiency in either Account, Power Charge Revenues otherwise available to be used for items 10 and 11 under “Power Charge Revenues” in Section III of the Summary of

Material Terms shall instead be used to replenish the Operating Reserve Account or the Debt Service Reserve Account, as applicable. However, subordinated payments under Qualified Swaps and Reimbursement Obligations may be paid without regard to the preceding sentence.¶

10. Minimum Operating Expense Available Balance Revenue Requirement Calculation; Replenishment of Operating Account. ¶

The Department will covenant to include in its revenue requirements amounts sufficient to cause a "Minimum Operating Expense Available Balance" to be on deposit in the Operating Account. The Minimum Operating Expense Available Balance is to be calculated by the Department at the time of each determination of a revenue requirement. "Minimum Operating Expense Available Balance" for so long as the Department continues to purchase the Residual Net Short, may be an amount up to and including \$1,000,000,000, and thereafter will be an amount equal to the largest projected difference between the Department's projected operating expenses and the Department's projected Power Charge revenues during any one month period during the then current revenue requirement period, taking into account a range of possible future outcomes. ¶

The Indenture may provide that, if on any date the Operating Account balance falls below specified levels, the Department will submit a new Revenue Requirement to the Commission providing for revenues sufficient to restore the Operating Account to the Minimum Operating Expense Available Balance within periods permitted for restoration to be specified in the Indenture. The last day of any required period for restoration which may be specified in the

Indenture shall be no sooner than 225 days following the submission of such Revenue Requirement to the Commission. The time period during which the Commission is required to act in response to any such submission under the Rate Agreement will not be affected by such provision.

11. ~~9.~~ Operating Reserve Account Requirement Calculation.

The Bond Indenture will provide that the Operating Reserve Account Requirement shall be calculated, in respect of each Revenue Requirement Period, as the greater of (a) the largest aggregate amount projected by DWR by which Operating Expenses exceed Power Charge Revenues during any consecutive seven calendar months commencing in such Revenue Requirement Period and (b) either (i) 18% of DWR's projected annual Operating Expenses for any Revenue Requirement Period in which DWR is procuring all or a portion of the Residual Net Short and which commences prior to 2006, ~~18% of projected annual Operating Expenses, or, (ii) 12% of DWR's projected annual Operating Expenses~~ for any Revenue Requirement Period in which DWR is not procuring all or a portion of the Residual Net Short or which commences after ~~2005, 12%~~ 2005; provided, however, that solely for purposes of ~~DWR's~~ (b) above, for Revenue Requirement Periods commencing after 2003, the projected annual amount shall not be less than the applicable percentage of Operating Expenses; ~~provided, however, that~~ for the most recent 12 month period for which reasonably full and complete Operating Expense information is available, adjusted in accordance with the ~~Summary~~ Indenture to the extent the Department no longer is financially responsible for any particular Power Supply Contract; and provided further, however, that at the time of ~~Material Terms~~ the issuance of the Bonds such

requirement may be ~~increased~~set to at an amount not to exceed the amount specified by the Summary of Material Terms ~~at the time of issuance of the Bonds~~. Notwithstanding the foregoing, in connection with the determination of whether additional Bonds under the Bond Indenture ~~can~~may be issued, the relevant calculation under clause (a) above shall be made in respect of a consecutive seven (7) calendar month period in a twenty-four (24) month period commencing on the first day of the calendar month next succeeding the date of delivery of the additional Bonds.

12. ~~10.~~ Fiduciary Expenses.

Fiduciary expenses shall not be paid out of the Debt Service Reserve Account. In the event of a default, fiduciary expenses shall be paid only out of Power Charge Revenues or Bond Charge Revenues.

13. ~~11.~~ Power Charge Revenues.

Item 6b under Power Charge Revenues in Section III of the Summary of Material Terms shall be deleted.

14. ~~12.~~ Debt Service Reserve Account.

If, at any time, the amounts in the Debt Service Reserve Account exceed the Debt Service Reserve Requirement, any excess shall be retained in such account or transferred to the Bond Charge Collection Account.

15. ~~13.~~

Certain Definitions.

The Bond Indenture shall contain definitions of "Operating Expense", "Emergency Measures" and "Enabling Measures" substantially like those contained in Exhibit A to this Addendum. The Bond Indenture shall also specify that costs not otherwise authorized to be incurred by DWR pursuant to the Enabling Measures cannot be incurred alternatively by means of a reduction to Revenues or any other type of credit having a similar effect.

~~14.~~ 16. Operating Account Initial Deposit.

The initial deposit to the Operating Account may be increased to be an amount such that the minimum daily balance of the Operating Account projected by DWR in the "base case" scenario supporting DWR's 2003 Revenue Requirement Filing, as it may be amended in accordance with the Summary of Material Terms and this Addendum, is ~~\$150 million~~ 1,000,000,000 from the Closing Date through February 15, ~~2003;~~ 2003, provided, however, that the sum of the initial deposits to the Priority Contract Account and Operating Account shall not exceed in the aggregate ~~\$800~~ 1,650,000,000. ~~million.~~

~~15.~~ 17. Priority Contract Account Initial Deposit.

The initial deposit to the Priority Contract Account shall be the amount estimated by DWR that would have been required to be on deposit in the Priority Contract Account on the Closing Date, if the requirements of the Bond Indenture had already been in effect on an on-going basis. ¶

18. Amortization of Bonds.¶

Debt service on the Bonds will be considered to be substantially level so long as the projected aggregate debt service on the Bonds payable in any year following the first year in which principal on the Bonds is due is not more than five percent (5%) higher than any other year following the first year in which principal on the Bonds is due. ¶

EXHIBIT A

"Operating Expenses" means the following costs and expenses of the Department in connection with its activities as permitted under the Enabling Measures: (i) payments for the purchase of Power and the delivery of such Power including, but not limited to, amounts paid under short-term Power Supply Contracts, Priority Long Term Power Contracts and other long-term Power Supply Contracts, termination and liquidation damage payments thereunder, payments thereunder relating to emission costs and emission opportunity costs, amounts payable in respect of balance of month-ahead Power, hour-ahead Power and real time balancing Power, including in-market and out-of-market purchases, costs of transmission, distribution, scheduling, dispatch and other expenses of the Department in connection with the delivery of its Power, and costs of avoiding purchasing Power for retail end-use incurred pursuant to an Emergency Measure; (ii) payments for or in connection with fuel to be used in the production of Power purchased by the Department, whether paid as a charge under a Power Supply Contract or a separate agreement for the purchase, transportation or storage of fuel for use in the generation of Power, including, but not limited to, termination and liquidated damage payments under fuel purchase agreements, payments under options or other fuel or electricity instruments, and payments under financial instruments relating to fuel costs or costs related to fuel costs; (iii) payments under any security agreements executed in connection with Power Supply Contracts or in connection with agreements for the purchase, transportation and storage of fuel, or any other agreement, relating to the purchase of Power; (iv) reasonable administrative, general and overhead expenses and payments for employee benefits, including, but not limited to, payments to savings, pension, retirement, health and hospitalization funds; (v) insurance premiums including, but not limited to, bond and Qualified Swap insurance premiums; (vi) legal and engineering expenses; (vii) expenses for consulting and technical services; (viii) charges paid by the Department pursuant to any licenses, orders or mandates from any agency or regulatory body having lawful jurisdiction; (ix) any taxes, governmental charges, other similar costs and expenses required to be paid by the Department, and costs required by CAISO to be paid by DWR or imposed on DWR by regulatory or other governmental requirements; (x) costs of complying with any arbitrage restrictions or rebate requirements relating to the Bonds under Section 148 of the Internal Revenue Code of 1986 as amended, or a successor statute, and applicable regulations thereunder; (xi) such other costs and expenses as may be provided for in a Rate Agreement as being recoverable as part of Revenue Requirements; and (xii) such other costs and expenses with respect to the sale of Power to local publicly owned electric utilities, as defined in AB1X, or in connection with the exchange of Power or the sale, transfer or other disposition of Power not required for use within the State as permitted by the Act, which would constitute current operating expenses under generally accepted accounting principles or statutory accounting principles as in effect from time to time and applicable to governmental units such as the Department. Notwithstanding the foregoing, Operating Expenses shall not include (a) any repayments to the General Fund of the State of advances made to the Department from amounts appropriated to the Electric Power Fund or interest thereon payable at the pooled money investment rate; (b) principal,

Redemption Price and Purchase Price of and interest on Bonds; (c) debt service on or payments under Parity Obligations, Subordinated Indebtedness or Subordinated Obligations; (d) principal of and interest on the Interim Financing Notes and other payments required to be made by the Department under the Credit and Security Agreement; (e) depreciation or obsolescence charges or reserves therefor; (f) amortization of intangibles or other bookkeeping entries of a similar nature; (g) any amounts paid from Bond Charge Revenues pursuant to subsection 1 of Section 506; or (h) any costs and expenses attributable to a Separately Financed Program.

"Emergency Measures" means Executive Order No. D-56-02 dated May 23, 2002, or any Proclamation or Order of the Governor of the State hereafter issued pursuant to the California Emergency Services Act (Chapter 7, Division 1, Title 2 of the California Government Code, as amended) (including, but not limited to, any regulations issued pursuant thereto) adopted in response to or in anticipation of the need to assure the availability of power to retail end-use customers in the State due to the inability or failure of an Electrical Corporation to purchase such power following the end of the Department's authority to enter into new Power Supply Contracts under ABIX.

"Enabling Measures" means, collectively, the Act and the Emergency Measures, or any of them, as appropriate.